SEBI to set up 'backstop entity' to buy MFs' illiquid corporate bonds

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SEBI plans to set up a 'backstop entity' to buy illiquid investment-grade corporate bonds from mutual funds in a bid to reduce the stress in debt schemes. A backstop will ensure that a part of the offering is purchased if it goes unsold.

"The backstop facility would be an entity, which can trade in relatively illiquid investment-grade corporate bonds and be readily available in times of stress to buy such bonds from participants in the secondary market," SEBI Chairman Ajay Tyagi said at the 25th AGM of the Association of Mutual Funds in India (AMFI) on Tuesday.

"As a broad guiding principle for any such entity to be set up, the market participants should have skin in the game and the moral hazard problem ought to be satisfactorily addressed," he added.

Industry experts said MFs would have to set up such an entity with enough capital so that it would be able to buy illiquid assets in exchange for government bonds.

Practical issues

Mahendra Kumar Jajoo, Head of Fixed Income, Mirae Asset Investment Managers, said the SEBI move will be a boost for the MF industry though there may be practical issues such as arriving at the corpus size and the risk appetite of the investing companies.

But will such a scheme require clearance from the RBI and the government? G Pradeep Kumar, CEO, Union MF, said the corporate bond segment is already fully regulated by SEBI, right from listing approvals to trading norms.

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